State/USAID Shared Services Study

May 3, 2004

SCOTT, MADDEN & ASSOCIATES

TABLE OF CONTENTS

Chapter 1. Executive Summary

1.1. **Purpose of report**. The State/USAID Shared Services Study team provides this report to the Joint Management Council to facilitate selection of pilot projects to consolidate parallel services at U.S. Foreign Service posts. The report offers findings and recommendations for consolidation of motorpools, warehouses and property management, residential maintenance, and leasing functions at U.S. Embassies Jakarta, Phnom Penh, Cairo, and Dar es Salaam. The JMC will use this report to facilitate decisions on pilot projects for implementation in mid-June 2004.

1.2. **Objectives of project**. The objectives of the project are to add value and reduce costs in delivery of administrative support services at U.S. Foreign Service posts. To achieve these objectives, State and USAID will identify and eliminate wasteful and unnecessary duplication of administrative support services whenever service can be improved or costs can be reduced. The goal is determine "win-win" solutions for State and USAID in achieving these objectives.

1.3. **Team**. The study team is composed of management officers and financial management analysts from both State and USAID. A shared services management consultant from Scott, Madden & Associates, Inc. participated as study team leader to facilitate decisions on costs accounting and to provide an independent assessment of consolidation opportunities.

1.4. **Methodology**. To compare services and determine areas of duplication, the team collected information on services from each post and conducted an independently administered customer survey. The team then observed services and interviewed managers directly at each post. We asked follow-up questions via email to finalize costs analysis. The team compared estimated effort, resources, and service levels of postulated consolidated activities to the existing ICASS and USAID services to decide advantages of consolidation. The team compared relative costs and service levels of independent services to determine best management and best practices.

1.5. **Findings and Recommendations**.

1.5.1. **General findings**. The team found significant advantages in consolidating motorpools, warehousing/property management, residential maintenance, and leasing at every post. In every case, service levels could be improved and cost could be reduced through consolidation. Recommendations for leadership are mixed based on advantages demonstrated by either ICASS or USAID at the four locations.

1.5.2. **Findings that applied at more than one post**. The team found that:

1.5.2.1. Service levels and customer satisfaction are high in target services at all posts with the exception that ICASS customers in Cairo, too often, are unable

to move directly into quarters because houses are unavailable or make readies are not completed.

1.5.2.2. Service standards exist in both ICASS and USAID, but performance metrics are not collected, reported, analyzed, and applied to manage and improve services. For example, motorpool trip logs are developed for dispatching, but are not used for analysis of driver/vehicle utilization, peak volume/time determination, or capacity requirements. Warehouse capacity utilization and inventory turnover are not tracked to determine the need for warehouse space or to highlight opportunities for disposal of unused items.

1.5.2.3. Existing, independent motorpools, warehouses, and residential maintenance organizations have excess capacity that could be reduced.

1.5.2.4. Furniture, appliance, generator, and housing pools reduce management challenges, provide greater availability for all participants, and improve service levels while greatly reducing costs. Pools reduce requirements for spares, reduce the need for moving items, reduce labor and vehicles associated with movements, and reduce warehousing requirements. Regular payments into pools make budgeting more predictable and reliable.

1.5.2.5. OBO provides residential maintenance in Jakarta and Dar es Salaam at significant costs that are not passed on to the customers. Though OBO provides excellent services and has outstanding capabilities, there appears to be limited constraints on their spending.

1.5.2.6. ICASS councils have not been as involved in managing ICASS operations as outlined in ICASS policies. ICASS councils should be directly involved, for instance, in decisions related to investments, costs, and service levels.

1.5.3. **Specific recommendations**.

1.5.3.1. **Near term.** Establish near-term pilots to consolidate motorpools and leasing at all target posts. Consolidate residential maintenance and warehousing/property management in Phnom Penh as part of a near-term pilot. Initiate a competitive sourcing effort for residential maintenance in Jakarta. Work with ICASS and OBO in Dar es Salaam to bring down the costs of residential maintenance.

1.5.3.2. **Longer-term.** Consolidate warehouse/property management in Jakarta to coincide with the selection of new/additional warehouse space by USAID and ICASS. Consolidate warehousing/property management in Cairo after resolving the issues of commingling property and use of trust funded resources. Consolidate warehousing/property management in Dar es Salaam in time for moving into the new warehouse on the NEC.

The following table summarizes recommendations for consolidation, the recommended leadership for the consolidated service, and other justification and comments.

Post	Service	Leadership	Justification/ Comments
Jakarta	Motorpool	USAID	USAID utilizes drivers more effectively and offers some cost advantages
	Warehousing/ property management	State-ICASS	ICASS has more resources to manage the operation. Consolidation should be timed to coincide with moves into new warehouses.
	Residential maintenance	State-ICASS	Streamline and reduce costs of ICASS residential maintenance and consolidate when costs are competitive with those of USAID.
	Leasing	State-ICASS	ICASS manages significantly more leases.
Phnom Penh	Motorpool	USAID	USAID operates at lower cost per kilometer.
	Warehousing/ property management	State-ICASS	ICASS provides more cost effective service, manages furniture and appliance pools and occupies a much larger portion of the warehouse.
	Residential maintenance	State-ICASS	ICASS has better residential maintenance facilities on the compound and operates at significantly less costs.
	Leasing	USAID	Though more expensively managed, obtains space at lower costs/square meter.
Cairo	Motorpool	USAID plus outsource peak load	USAID enjoys higher customer satisfaction at lower cost per kilometer. USAID can potentially set up contract to handle peak loads.
	Warehousing/ property management	State-ICASS	ICASS warehouse operations are well managed and more cost effective; whereas, USAID's warehouse is ill-maintained.
	Residential maintenance	----------	Not evaluated.

Post	Service	Leadership	Justification/ Comments
	Leasing	USAID	USAID leasing management is more efficient and effective.
Dar es Salaam	Motorpool	State-ICASS	ICASS operates at significantly less costs. USAID dispatching processes should be adopted by ICASS.
	Warehousing/ property management	State-ICASS	ICASS costs are significantly less. ICASS maintains a much smaller percent of inventory in the warehouse. ICASS is adopting USAID's warehouse standards for orderliness and cleanliness.
	Residential maintenance	State-ICASS	Streamline and reduce costs of ICASS residential maintenance and consolidate when costs are competitive with those of USAID.
	Leasing	USAID	USAID leases high quality properties at significantly less costs.

1.5.4. **Other recommendations**.

1.5.4.1. Management improvements. The ICASS Executive Board and local ICASS councils, in partnership with State and USAID service providers, should actively improve ICASS processes by:

1.5.4.1.1. Instituting incentives for management officers to drive down costs while improving service levels.

1.5.4.1.2. Establishing explicit performance management metrics and targets for each service.

1.5.4.1.3. Evaluating performance management targets quarterly.

1.5.4.1.4. Using performance against metrics to provide input to management officers' evaluations.

1.5.4.1.5. Charging for ICASS services according to actual volumes and service levels rendered instead of distributing budgeted levels.

1.5.4.2. OBO costs. Coordinate with OBO to establish chargebacks through ICASS for residential maintenance services. Use these chargebacks to regulate demand for services; and therefore, the costs to the taxpayers. OBO should evaluate staff reductions and outsourcing of some functions to reduce their costs of residential maintenance.

1.5.5. **Challenges**.

1.5.5.1. **Control over services**. Control over services was the dominating issue at each post. USAID, being the smaller organization, worries that yielding control of services to ICASS will result in lower service levels and/or increased costs to them in the long-term, if not immediately. To be successful, changes must result in equal or better service levels at equal or reduced costs to USAID and the USG as a whole.

1.5.5.2. **Communications and change management**. Communications among State and USAID staffs at the local level were mixed. Most service managers had not visited their counterpart's facilities nor compared service processes to discover best practices. USAID fears of State domination cause staffers to assume the worst in the absence of involvement and open communication. ICASS managers have not involved USAID managers always in decisions that affect their personnel and/or their budgets, and USAID managers have not always taken advantage of opportunities to participate. Leaders of both State and USAID administrative functions must take strong change management actions to overcome these impediments to cooperation.

1.5.5.3. **Incentives for change**. Significant changes in service provision will require managers from USAID and State to give up power, control, and/or staff while incurring personal risks in their careers. To achieve cost reductions for the taxpayer, these managers must have clear, tangible incentives for making tough decisions. Senior State and USAID leaders should consider providing awards, guaranteed follow-on assignments, and/or special performance ratings as incentives.

1.6. Agency Comments and Dissenting Opinions

1.6.1. State. The State contingent on the team supports the consolidation recommendations contained in this report. Elimination of redundancies will provide cost savings and better value for all ICASS customers at these posts, including State and USAID. The federal budget deficit, declining agency budgets, ICASS affordability, and the dangerous security situation all require that we move promptly to eliminate wasteful duplication of effort and establish efficient shared services platforms. These pilots should be built upon with further consolidation efforts at these and other posts. ICASS is a stronger and more effective organization with USAID fully engaged in partnership as a service provider.

1.6.2. USAID. The USAID contingent is confident that a more moderate approach of tackling one or two services at each of the studied posts is far more apt to lead to success in the short run than the recommendations put forth in 1.5.3. A success in these selected services will give adequate time to develop the heretofore missing mutual trust so much in absence at mission level. It also will allow time to develop the required metrics necessary to gauge success of these pilots and for ICASS to begin to address endemic issues of cost containment and quality control.

1.7. **Consultant's Comments**.

1.7.1. **Consolidation**. Consolidation of motorpools, warehousing/property management, residential maintenance, and leasing can produce significant savings while improving service levels at each of the posts studied. The combination of these services can reduce overhead infrastructure and management as well as excess spare vehicles, drivers, floor space, houses, furniture, appliances, tradesmen, warehousemen, and other resources. The fundamental question for senior managers is not whether consolidation is advantageous, but whether ICASS and USAID can work together to realize these savings and improved service levels. Strong senior management sponsorship and comprehensive change management actions are required to ensure success of proposed pilot projects.

1.7.2. **Consolidated Service Organizations**. Consolidation of services should not imply that one organization assumes responsibility for that service without incorporating elements of the other organization. Typically, industry consolidations are made by combining the best employees, equipment, and processes from existing organizations. This approach ensures that each organization has some stake in the new organization. And, employees are chosen based on merit, not parochial affiliation.

1.7.3. **Scope of Consolidation**. Given the size and duplication of administrative services at Phnom Penh and Dar es Salaam, State and USAID should consider consolidation of all support services into one composite organization. Though beyond the scope of this study, this more significant consolidation could yield more savings in U.S. direct hires and other costs. Leadership of the new composite organization could be alternated between State and USAID. However, strong, high-level sponsorship would be required to ensure success for such a significant cultural change.

1.7.4. **Management**. In most cases, ICASS and USAID are working hard to provide high quality services. Too often, managers have added resources to solve management challenges. Both organizations could improve performance by collecting, reporting, and analyzing performance metrics to formulate service process improvements. For example, motorpools typically had peaks at particular times of the day. Managers staffed drivers to handle those peaks instead of considering alternatives such as outsourcing for those peaks. None of the managers were reporting or analyzing driver/vehicle utilization rates or customer demand patterns.

Chapter 2. Project Approach

2.1. **Background**.

2.1.1. **Co-location of agencies**. In response to Budget pressures and security threats, the U.S. Government is actively seeking to co-locate operations at our missions abroad and reduce the number of Americans at overseas posts. This co-location highlighted apparent duplications among support services provided by various agencies overseas.

2.1.2. **Study sponsorship**. The State-USAID Joint Management Council (JMC) sponsored this project to examine the feasibility of combining parallel services provided by the International Cooperative Administrative Support Services (ICASS) organization and U.S. Agency for International Development (USAID) at U.S. Foreign Service posts. To accomplish this objective, ICASS, State and USAID collaborated to study and compare four services at four overseas posts and report back to the JMC by May 3, 2004. From the study team's recommendations, the JMC will select pilot projects in mid-June that should be implemented by October 2004.

2.1.3. **Alignment with other studies**. This project aligns with a recent GAO report on ICASS that highlights duplication and opportunities for improvement in support services. It also is consistent with and mutually supporting of initiatives by the Department of State to regionalize support services.

2.2. Scope of study.

2.2.1. **Services Studied**. The study focused on four services including motorpools, warehousing/property management, residential maintenance, and leasing.

2.2.1.1. The scope for motorpools (also known as direct vehicle operations) included shuttles, in house taxi services, and self-driven vehicles. To capture all pertinent costs and to avoid skewing costs per kilometer, vehicle maintenance was included in the cost analysis

2.2.1.2. Warehousing/property management included warehousing operations and non-expendable property management. Warehousing included reception, storage, issuance, transportation, and disposal of warehouse and residential inventories. Non-expendable property management included reception, barcoding, accounting, reporting, and disposal of non-expendable property. Expendable property management was added to facilitate parallel cost determination between ICASS and USAID.

2.2.1.3. Residential maintenance included maintenance of Government owned and leased residences. Overlap with office maintenance was handled through time allocations for personnel performing these services.

2.2.1.4. Leasing included all types of residential, office, warehouse, and parking lot leases. The scope included finding properties, coordinating inspections,

writing and negotiating leases, arranging and managing payments, coordinating landlord maintenance where appropriate, and renewing leases.

2.2.2. **Posts Studied**. Four posts were selected for the study including Jakarta, Indonesia; Phnom Penh, Cambodia; Cairo, Egypt; and Dar es Salaam, Tanzania. Phnom Penh and Dar es Salaam are relatively small posts. Jakarta is medium size, and Cairo is among the largest. By studying this cross section of posts, the team could identify variations in service design related to size.

2.3. Methodology.

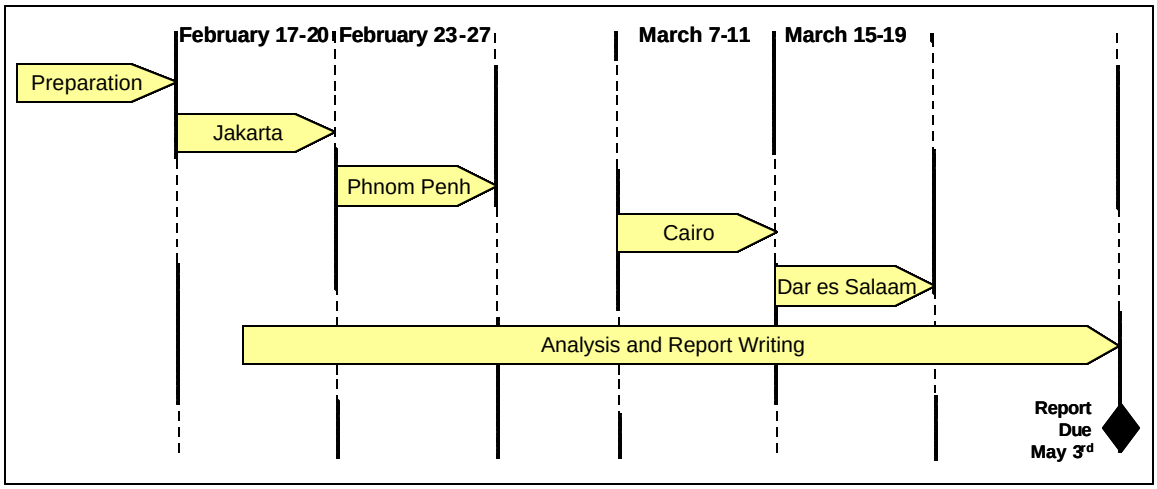
2.3.1. **Study team**. The project was organized by ICASS Service Center Director, formerly Wayne Bush and currently Lawrence Mandel. Christina Somma, Center for Administrative Innovation and Deputy State ICASS Representative, and Steve Callahan, Director of OMS, spearheaded efforts in Washington for State and USAID, respectively. State and USAID selected a study team composed of management officers and financial management analysts from each organization that traveled to each post to observe services directly. Below is a listing of team members by posts visited. A shared services director from Scott, Madden & Associates, Inc., contracted through Mitretek Systems, participated as the study team leader to facilitate decisions on costs accounting and to provide an independent opinion of consolidation opportunities.

Post	State/ ICASS Participant	USAID Participant
Jakarta	• Mark Perry, Special Assistant to Asst Secretary for Administration • Calvin Levo, Financial Management Analyst	• Margaret McCarthy, ICASS Coordinator • Rebecca Krzywda, Financial Management Analyst
Phnom Penh		
Cairo	• Mark Perry, Special Assistant to Asst Secretary for Administration • Philip Dubois, Financial Management, Pretoria	• Corwin Edwards, OMS • George Zegarac, CPA, RFMC Director, REDSO/ESA- Nairobi
Dar es Salaam		

Note: The director from Scott, Madden & Associates accompanied the team to all posts.

2.3.2. Key post contacts. ICASS and USAID employees at each post coordinated meetings, researched information, conducted tours, queried data, and/or participated in interviews. A listing of the key contacts at each post can be found at Appendix E, Key Post Contacts.

2.3.3. **Schedule of visits**. Following is an overview of the project schedule.



2.3.4. **Comparison time frames**. In general, comparisons were based on September 30, 2003 or averaged over fiscal year 2003. Direct observations were made during the first calendar quarter of 2004. Cost comparisons are based on September 30, 2003 unless estimates were required using another date. Motorpool trip logs were collected for periods that varied among posts. Each post selected a period based on normal traffic loading and the absence of special events or visits.

2.3.5. **Comparisons**. The team examined organizations, staffing, processes, service levels, performance, customer satisfaction, and costs of each service. Substantial differences in quality or costs were further examined to determine the best practice process(es) that yielded these differences. Favorable differences in costs or quality provided an input for deciding leadership of a consolidated service.

2.3.6. **Customer satisfaction surveys**. To ascertain relative levels of customer satisfaction, the team developed a customer satisfaction survey. Survey participants were selected from ICASS and USAID customer segments at random. This survey was administered over the Internet and analyzed by Scott, Madden & Associates. The results of this survey are found in Appendices A-D.

2.3.7. **Costs comparisons**. Given the short preparation time, the team chose to adapt the ICASS cost distribution model to collect the costs of each service. These costs were normalized between ICASS and USAID by pulling out items that were not similar and by dividing by appropriate divisors to achieve unit rate comparisons. The team used costs per kilometer for motorpools, costs per customer for warehousing/property management and leasing, and costs per residence for residential maintenance. Though costs could not be perfectly normalized, the team was able to achieve an 80 % confidence level in the results. See Chapter 4, Costs Comparison Approach, for further information.

2.3.8. **Likely consolidation opportunities**. The team focused its investigation on areas of likely duplication. These areas included activities that had variable volumes or sporadic requirements and activities that could be applied to greater volumes with proportionately less effort. Other areas included facilities and people that were underutilized. Each of these areas was outlined in a template that guided our investigation and ensured balanced examination of ICASS and USAID services at each post.

2.3.9. **Consolidation recommendations**. The comparison of services between ICASS and USAID yields insight into the best management and best practices. The team determined costs and service level advantages of consolidation by postulating future states of consolidation and comparing the potential savings to the costs and service levels of the independently provided services added together.

Chapter 3. Findings and Recommendations

3.1. **Findings and Recommendations—Jakarta**

3.1.1. **Profile of post.** Embassy Jakarta is one of our largest missions in the East Asia Pacific region. There are 17 agencies at post totaling 213 American and 1,138 LES employees. State has 135 Americans and 773 LES; USAID has 35 Americans and 145 LES. All agencies are located on the Embassy compound; State-ICASS and USAID have separate warehouse facilities several miles distance from the Chancery.

3.1.2. **Motorpools**. ICASS and USAID run significant motorpools employing 18 and 13 drivers, respectively. ICASS and USAID motorpools operate from the same parking lot, have offices in adjacent buildings, drive similar vehicles, and travel to mostly the same destinations. Home-to-work and work-to-home shuttles travel similar routes to overlapping housing areas, but carry only passengers assigned to respective customer organizations. Shuttles carry only 3 passengers on average.

3.1.2.1. **Findings**.

3.1.2.1.1. ICASS and USAID motorpools are duplicating functions that could operate with higher service levels and lower costs as one motorpool.

3.1.2.1.2. Each motorpool has excess drivers and vehicles, rarely rejecting any request regardless of lead time.

3.1.2.1.3. Some customers express a preference for using taxis, but taxis cannot be easily haled at the Embassy due to the absence of a taxi line or safe boarding area.

3.1.2.1.4. ICASS has 4 buses that are rarely used and that present a high profile in this city of small vehicles.

3.1.2.1.5. Neither motorpool maintains metrics on driver utilization, vehicle utilization, or customer demand patterns.

3.1.2.1.6. Motorpool services are provided at the costs of $1,533 and $1,143 per customer by ICASS and USAID, respectively.

3.1.2.1.7. Consolidation would reduce requirements for drivers, vehicles, facilities, and management effort. USAID management appears to have slight advantages with computerized trip logs.

3.1.2.2. **Recommendations**.

3.1.2.2.1. Consolidate motorpools under the leadership of USAID and reduce the numbers of excess vehicles, drivers, and supervisor/dispatchers.

3.1.2.2.2. Consolidate shuttles to make more rides available at more times and reduce the total numbers of shuttle vehicles and drivers.

3.1.2.2.3. Set up software to track driver, vehicle, and customer demand patterns to more effectively schedule and plan capacity.

3.1.2.2.4. Investigate feasibility of building a physically protected taxi line adjacent to the Embassy.

3.1.2.2.5. Trade some ICASS buses for smaller vehicles, and outsource the requirement for greater capacity that is rarely needed.

3.1.3. **Warehousing/Property Management**. Both USAID and ICASS will be moving to different warehouse facilities within the next year. USAID will move from an expensive leased warehouse to a facility not yet selected. ICASS will move from a very large leased facility to its permanent facility now under renovation by OBO. ICASS managers believe they need more space than will be available in their renovated warehouse.

3.1.3.1. **Findings**.

3.1.3.1.1. Both warehouses could further reduce inventories significantly.

3.1.3.1.2. ICASS total inventories are just under double the total inventories of USAID, but the number of items and values maintained in their warehouses are similar indicating a disproportionate level of stocking in the USAID warehouse.

3.1.3.1.3. Both warehousing and property management operations have similar processes.

3.1.3.1.4. The ICASS warehouse is significantly larger with more in-house services.

3.1.3.1.5. ICASS and USAID warehousing/property management functions enjoy similar levels of customer satisfaction.

3.1.3.1.6. Warehousing/property management costs per customer are $ 2,952 for ICASS and $ 4,140 for USAID.

3.1.3.2. **Recommendations**.

3.1.3.2.1. Select a new facility, in addition to the ICASS facility under renovation, that accommodates the needs of ICASS and USAID.

3.1.3.2.2. Consolidate warehousing/property management operations under the leadership of ICASS to reduce American effort, total warehouse area requirements, warehousemen, and property inventories.

3.1.3.2.3. Begin consolidation in time for the warehouse selection process.

3.1.4. **Residential maintenance**. ICASS has extensive facilities and a large staff of tradesmen in residential maintenance led by two facilities maintenance supervisors who are paid by OBO. USAID residential maintenance is outsourced and led by a local U.S. contract manager. ICASS maintains 68 leased and 68 Government-owned residences while USAID maintains 36 leased and 4 Government owned residences.

3.1.4.1. **Findings**.

3.1.4.1.1. OBO maintains significant infrastructure to care for Government-owned offices and residences. This infrastructure is also used to support residential properties. OBO pays for a significant portion of this infrastructure to the benefit of ICASS customers.

3.1.4.1.2. ICASS employs significant in house carpentry, sheet metal/welding, air conditioning, plumbing, and other craft specialties.

3.1.4.1.3. Customers indicate that ICASS provides better preventive maintenance than USAID, but are otherwise equally satisfied.

3.1.4.1.4. Excluding OBO, costs of residential maintenance are $ 5,313 and $ 4,824 per residence for ICASS and USAID, respectively. Costs are $ 7,425 and $ 4,824 when OBO costs are included.

3.1.4.2. **Recommendations**. Undertake an effort to streamline residential maintenance operations, including investigating outsourcing operations to bring costs down. Consolidate operations under ICASS/FMS management after costs per customer have been reduced to current USAID levels.

3.1.5. **Leasing**. ICASS maintains 69 total leases, and USAID maintains 36 leases.

3.1.5.1. **Findings**.

3.1.5.1.1. Leasing operations are similar and duplicating.

3.1.5.1.2. Quality of housing is similar and each office leases from some of the same landlords.

3.1.5.1.3. Leasing costs are $ 1,081 and $ 1,318 for ICASS and USAID, respectively.

3.1.5.2. **Recommendations**. Consolidate leasing operations under the leadership of ICASS and reduce American effort and LES staff.

3.2. Findings and Recommendations—Phnom Penh

3.2.1. **Profile of post.** Embassy Phnom Penh has 4 agencies represented at post totaling 49 American and 515 LES employees. State has 28 Americans and 424 LES (333 of these are guards); USAID has 13 Americans and 78 LES. All agencies are located on the Embassy compound, and State-ICASS and USAID conduct separate property operations at a shared warehouse facility not far from the Chancery. OBO is building a new embassy facility that is scheduled for completion in January 2006.

3.2.2. **Motorpools**. ICASS operates a motorpool with 9 drivers and 12 vehicles, and USAID operates a motorpool with 7 drivers and 8 vehicles. ICASS uses a variety of types of vehicles while USAID has standardized on Ford vehicles. These motorpools operate out of the same compound and travel to similar destinations. USAID travels to more areas outside of Phnom Penh.

3.2.2.1. **Findings**.

3.2.2.1.1. ICASS and USAID motorpools provide duplicating services from the same location to mostly the same destinations.

3.2.2.1.2. Both motorpools have significant excess capacity that provides nearly 100 % service levels to requesters regardless of lead time for requests.

3.2.2.1.3. Combining motorpools could reduce requirements for management effort, supervisor/dispatchers, drivers, and vehicles.

3.2.2.1.4. Both motorpools take advantage of a contract shuttle van that operates after hours to support TDY visitors—a best practice that should be considered by other posts.

3.2.2.1.5. Neither motorpool maintains metrics on driver utilization, vehicle utilization, or customer demand patterns.

3.2.2.1.6. ICASS and USAID provide motorpools at a cost of $ 1.98 and $ 1.67 per kilometer, respectively.

3.2.2.2. **Recommendations**.

3.2.2.2.1. Consolidate motorpools under the leadership of USAID and reduce excess vehicles, drivers, and supervisor/dispatchers.

3.2.2.2.2. Set up software to track driver, vehicle, and customer demand patterns for more effectively scheduling drivers and planning capacity.

3.2.2.2.3. Expand use of contract services to handle peak demands for drivers/vehicles.

3.2.3. **Warehousing/Property Management**. ICASS and USAID have recently moved into a new spacious warehouse with areas separated by a fence. Both organizations have eliminated excess property and have organized items well. A new annex to the warehouse is used by ICASS for storing other agencies' property.

3.2.3.1. **Findings**.

3.2.3.1.1. The new warehouse annex represents excess capacity that can be useful if the Embassy or USAID missions expand.

3.2.3.1.2. Furniture maintained by ICASS and USAID is high quality, but ICASS purchases furniture through the State furniture contract while USAID buys furniture through their regional center in Thailand.

3.2.3.1.3. Both warehousing operations provide loaner equipment and furnishings from the same location for parties at residences in close proximity.

3.2.3.1.4. Two janitorial services clean the same toilets in the warehouse (duty is traded off between ICASS and USAID contractors).

3.2.3.1.5. Furniture and appliances for ICASS and USAID are segregated and managed separately in the same warehouse facilities.

3.2.3.1.6. The costs of warehousing/property management per customer are $ 4,449 and $ 5,206 for ICASS and USAID, respectively.

3.2.3.2. **Recommendations**.

3.2.3.2.1. Consolidate warehousing operations under the leadership of ICASS and reduce staff and space accordingly.

3.2.3.2.2. If practical, vacate the warehouse annex and sub-lease the space until needed.

3.2.3.2.3. Select the best practice furniture procurement approach and use it for both ICASS and USAID to reduce costs and improve quality.

3.2.3.2.4. Institute an appliance pool for all agencies on post, which should reduce on-hand requirements and reduce movement of appliances among residences during personnel turnover.

3.2.3.2.5. Consider instituting furniture and housing pools for all agencies on post (see section on pools).

3.2.3.2.6. Consolidate the loaner program for equipment and furnishings for parties to reduce administration and transportation requirements.

3.2.3.2.7. Consolidate welcome kit programs.

3.2.4. **Residential maintenance**. ICASS maintains 36 residences, and USAID maintains 13 residences. ICASS maintenance shops are on the Embassy compound, and USAID's maintenance facility is in a leased house near the Embassy.

3.2.4.1. **Findings**.

3.2.4.1.1. Residential maintenance functions are similar and duplicating.

3.2.4.1.2. ICASS maintains 36 residences with a staff of 10 while USAID maintains 13 residences with a staff of 12.9 (USAID had planned staff to support a separate mission facility).

3.2.4.1.3. ICASS uses PASS, and USAID uses a MS Access database to manage work orders.

3.2.4.1.4. The costs of residential maintenance per residence are $ 4,425 and $ 7,375 for ICASS and USAID, respectively.

3.2.4.2. **Recommendations**.

3.2.4.2.1. Consolidate all residential maintenance under ICASS leadership. Combine and reduce staffs to retain the best personnel with the appropriate mix of skills.

3.2.4.2.2. Reduce the number of vehicles, generators, and facilities used for residential maintenance.

3.2.4.2.3. Select the best work order management system and coordinate one set of reports for Washington.

3.2.5. **Leasing**. ICASS maintains 75 total leases, and USAID maintains 18 total leases. The average term of the ICASS leases is 5 years while the average term of USAID leases is 3 years. ICASS and USAID share information on leases, which reduces the likelihood of unintentional competition for the same properties.

3.2.5.1. **Findings**.

3.2.5.1.1. Leasing operations are similar and duplicating in most respects.

3.2.5.1.2. Quality of residential housing is similar.

3.2.5.1.3. Lease records are maintained on RPA and in an Excel spreadsheet by ICASS and USAID, respectively.

3.2.5.1.4. Leasing offices lease from some of the same landlords.

3.2.5.1.5. There is no significant difference in customer satisfaction between ICASS and USAID for leasing.

3.2.5.1.6. The average rents per residential lease are $ 24,290 and $ 22,462 for ICASS and USAID, respectively. USAID obtains larger properties at less costs on average.

3.2.5.1.7. The costs of leasing per lease are $ 295 and $ 379 for ICASS and USAID, respectively.

3.2.5.2. **Recommendations**.

3.2.5.2.1. Consolidate leasing operations under the leadership of USAID and reduce management effort and FSN staff.

3.2.5.2.2. Select and use the best system for tracking and managing leases.

3.2.5.2.3. Form a housing pool (see section on pools).

3.3. Findings and Recommendations—Cairo

3.3.1. **Profile of post.** Embassy Cairo is one of the largest missions in the world, with 8 agencies (49 separately funded units) totaling 613 American and 1384 LES employees. State has 208 Americans and 818 LES; USAID has 92 Americans and 271 LES. The Chancery is located downtown and contains most personnel. UAID

has a new office building 25 kilometers away in a residential area. State and USAID maintain adjacent warehouse facilities a few kilometers from the USAID building.

3.3.2. **Motorpools**. ICASS and USAID operate large, independent motorpools. The ICASS motorpool operates 34 vehicles with 35 drivers, and USAID operates 36 vehicles with 21 drivers. The ICASS motorpool operates from facilities across the street from the Embassy and from the warehouse complex, which is 5 kilometers from USAID's offices. USAID's motorpool operates across the street from its offices in Maadi. While the primary service area for the motorpools is greater Cairo, both ICASS and USAID make runs to Alexandria and other locations. USAID makes more field trips to areas outside of Cairo. While some State and USAID families live downtown, the majority live in housing areas in or near Maadi.

3.3.2.1. **Findings**.

3.3.2.1.1. Though ICASS and USAID motorpools are not co-located, the ICASS parking area at the warehouse is only 5 kilometers from USAID's parking area.

3.3.2.1.2. Service areas mostly overlap in the greater Cairo metropolitan area.

3.3.2.1.3. Shuttle services have some overlap in pickup/delivery areas.

3.3.2.1.4. USAID has 3 shuttle services:

3.3.2.1.4.1. Home-to-work, which runs mostly in Maadi within 5 kilometers of the USAID offices

3.3.2.1.4.2. USAID offices-to-Embassy, which runs hourly during working hours

3.3.2.1.4.3. USAID offices-to-Maadi train station, which runs in the mornings and afternoons to shuttle locally engaged staff

3.3.2.1.5. ICASS runs 2 types of shuttles:

3.3.2.1.5.1. Home-to-work, which runs between the Embassy and housing areas in Maadi and downtown

3.3.2.1.5.2. Embassy-to-Maadi train station, which runs in the mornings and afternoons to shuttle locally engaged staff

3.3.2.1.6. Both motorpools use the same radios and frequency band; however, most dispatching is conducted using cell phones.

3.3.2.1.7. USAID and ICASS motorpools have standardized on a single vehicle manufacturer—a best practice

3.3.2.1.8. Other agencies that have their own motorpools, but use the ICASS maintenance use a variety of vehicles makes

3.3.2.1.9. ICASS provides maintenance for ICASS and USAID motorpools (body repairs are contracted)

3.3.2.1.10. Survey results indicate that USAID customers are more satisfied with the USAID motorpool, than the various ICASS agencies are with the ICASS motorpool.

3.3.2.1.11. Costs of motorpools services per kilometer are $ 0.90 and $ 0.78 for ICASS and USAID, respectively.

3.3.2.1.12. USAID is anticipating a 30-40 % RIF of all personnel this year, which could result in the outsourcing of motorpool services.

3.3.2.2. **Recommendations**.

3.3.2.2.1. Consolidate motorpools under the leadership of USAID, and reduce staff, vehicles, and facilities to provide increased service levels at reduced costs. However, if the required RIF forces USAID to cut Motorpool staffing, then ICASS should take the lead in a consolidated operation, taking maximum advantage of USAID's best practices and talented personnel.

3.3.2.2.2. Assess proper staffing for a consolidated motorpool considering outsourcing of home-to-office shuttles and peak demand requirements (outsourcing depends on RSO's assessment of risks).

3.3.2.2.3. Consolidate shuttle routes to increase efficiencies and improve service.

3.3.2.2.4. Consolidate and reroute shuttles to Maadi train station to improve service and reduce costs.

3.3.2.2.5. Consolidate home-to-work shuttles to improve service and reduce costs.

3.3.2.2.6. Reduce parking locations from 3 to 2 (one in Maadi and one at the Embassy).

3.3.2.2.7. Centrally dispatch and control all *ad hoc* trips. Leverage the 2 locations to reduce driver wait times by using drivers to pickup different passengers from destination drop off points.

3.3.2.2.8. Formalize and promulgate vehicle standards to all agencies using ICASS maintenance, especially DOD agencies and procurement offices.

3.3.3. **Warehousing/Property Management**. ICASS and USAID have adjoining warehouses in the same compound located outside of Maadi. The ICASS warehouse was purchased by OBO, and the USAID warehouse was purchased through trust funds. ICASS has more spacious refinishing, re-upholstering, and carpet cleaning and storage facilities. ICASS uses 3-tier racks, while USAID has a second floor loft in its warehouse. ICASS warehousing operations are in-house, and USAID warehousing operations are co-sourced with Trans Century Associates (USAID provides facilities and supplies while TCA provides staff and management).

3.3.3.1. **Findings**.

3.3.3.1.1. ICASS and USAID management have little contact and have not taken advantage of each other's best practices.

3.3.3.1.2. The ICASS warehouse was far cleaner and more orderly than the USAID warehouse.

3.3.3.1.3. Little dust was apparent in the ICASS warehouse while dust was everywhere in considerable quantities in the USAID warehouse (ICASS warehouse entrances are equipped with air curtains to exclude insects and dust).

3.3.3.1.4. Labeling by type and status was uniform and mostly complete in the ICASS warehouse while labeling was inconsistent in the USAID warehouse (In the USAID warehouse, Regional Inspector General (RIG) and OMC items were segregated in separate bays).

3.3.3.1.5. Both warehouses have been aggressively reducing excess property through disposal sales, but USAID's warehouse still contains many items the team assessed as unlikely to be used.

3.3.3.1.6. ICASS has recently acquired $ 2 million in replenishment furniture and appliances resulting in a nearly full warehouse.

3.3.3.1.7. USAID's warehouse is full, but many items appear in poor condition, especially furniture and window air conditioning units that potentially could be sold.

3.3.3.1.8. Funding and legal requirements concerning assets acquired by trust funds are a consideration with respect to consolidation.

3.3.3.1.9. USAID's warehouse contains property from the RIG and property purchased with trust funds. It also contains property from OMC, who pays USAID directly for warehousing services. The issue of whether trust fund property must be physically segregated impacts the consolidation option and therefore requires further investigation.

3.3.3.1.10. USAID's warehouse was purchased with trust funds, which may limit the manner in which it may be used.

3.3.3.1.11. Employees' (the end-customers) satisfaction with respect to deliveries and quality of furnishings is higher in USAID despite the relatively poor condition of its warehouse. Further investigation is required to determine how USAID achieves this higher customer satisfaction.

3.3.3.1.12. ICASS has established appliance, furniture, and housing pools—a best practice (see section on pools).

3.3.3.1.13. Costs of warehousing/property management per customer are $2,351 and $4,959 for ICASS and USAID, respectively.

3.3.3.2. **Recommendations**.

3.3.3.2.1. Resolve property segregation issues for trust funded property and RIG.

3.3.3.2.2. Resolve whether USAID warehouse, which was bought with trust funds, can be used for other than USAID programs, or if USAID warehouse can be returned to the government of Egypt (assuming that adequate space can be made available in the ICASS warehouse).

3.3.3.2.3. After trust fund issues have been resolved, consolidate warehousing/property management under the leadership of ICASS. Reduce staff, facilities, and contracts accordingly.

3.3.3.2.4. Dispose of items in the USAID warehouse that are unlikely to be used.

3.3.3.2.5. After distribution of new furnishings in the ICASS warehouse, consolidate all items into the existing ICASS warehouse.

3.3.3.2.6. Examine the feasibility of returning the USAID warehouse to Egypt.

3.3.3.2.7. ICASS and USAID share best practices for warehousing/property management.

3.3.3.2.8. Determine how USAID has achieved its high level of customer satisfaction as a potential best practice.

3.3.4. **Residential maintenance**. Residential maintenance was not studied.

3.3.5. **Leasing**. ICASS manages 156 leases (148 residential and 7 offices/parking lots), and USAID manages 78 leases (74 residential and 4 offices/parking lots).

3.3.5.1. **Findings**.

3.3.5.1.1. ICASS and USAID use similar processes for leasing.

3.3.5.1.2. ICASS manages 156 leases with 3.9 FTE while USAID manages 78 leases with 0.75 FTE.

3.3.5.1.3. USAID customers are more likely to move directly into housing than are ICASS customers.

3.3.5.1.4. USAID families move directly into housing with rare exceptions.

3.3.5.1.5. As many as 40 % of ICASS customer families must occupy temporary quarters before moving into permanent quarters, which has led to diminished customer satisfaction.

3.3.5.1.6. ICASS customer assignments appear to be less predictable and more likely to adjoin or overlap with predecessors' departures.

3.3.5.1.7. Lead times for make readies appear to be long—as much as 4-6 weeks.

3.3.5.1.8. Delays in moving into quarters have been as long as 4-6 months.

3.3.5.1.9. Overall satisfaction with quality of housing is high for both ICASS and USAID.

3.3.5.1.10. Though USAID customers are happy with their housing, they have a perception that ICASS customers have more space in their apartments.

3.3.5.1.11. Some ICASS customers believe that State could get still more square footage and amenities for rents paid (They perceive that U.S. lessees are charged more than Egyptian lessees for similar properties.).

3.3.5.1.12. USAID management of leasing appears to be better than that of ICASS.

3.3.5.1.13. USAID leasing managers are located close to the largest housing concentration in Maadi.

3.3.5.1.14. USAID leases are generally less expensive.

3.3.5.1.15. USAID enjoys higher customer satisfaction with housing.

3.3.5.1.16. Performance metrics are not used to inform customers of service levels, nor used as a basis for service improvement.

3.3.5.1.17. Costs of leasing per lease are $ 1,058 and $ 230 for ICASS and USAID, respectively.

3.3.5.2. **Recommendations**.

3.3.5.2.1. Consolidate leasing under the leadership of USAID and reduce leasing staff.

3.3.5.2.2. Reengineer processes to ensure that notice of arrivals is well known by all offices required in the make ready process.

3.3.5.2.3. Collect, publish, analyze, and act on performance metrics for leasing. Performance metrics could include such indicators as:

3.3.5.2.3.1. Percentage of door-to-door moves for 30, 60, 90, and 120-day lead times;

3.3.5.2.3.2. Residential rents per square foot.

3.3.5.2.3.3. Average residential square footage for each grade level.

3.3.5.2.3.4. Number of move in discrepancies per customer.

3.3.5.2.3.5. Other metrics as decided by the ICASS Council.

3.3.5.2.4. Set targets for performance metrics and use them to drive continuous improvement.

3.3.5.2.5. Determine and address the root cause of make ready delays to reduce requirements for families to occupy temporary housing.

3.3.5.2.6. Conduct an anonymous housing survey to reduce discriminatory pricing by landlords.

3.4. Findings and Recommendations—Dar es Salaam

3.4.1. **Profile of post.** Embassy Dar es Salaam has four agencies represented totaling 85 American and 352 LES employees. State has 65 Americans and 251 LES; USAID has 14 Americans and 90 LES. All agencies except CDC are located on the new embassy compound. State-ICASS and USAID have separate warehouse facilities at some distance from the Chancery. OBO will build a new combined warehouse on the compound, scheduled for completion in 2006.

3.4.2. **Summary for Dar es Salaam**.

3.4.2.1. **Findings**.

3.4.2.1.1. ICASS and USAID have similar and duplicating motorpool, warehouse/property management, residential maintenance, and leasing operations. There are no statistically significant differences in customer satisfaction. ICASS has a more robust and expensive residential maintenance staff, and USAID does a better job of managing work orders and communicating with customers. USAID has stronger warehouse management, but ICASS is cheaper and both will move to a new, combined warehouse in the next year. USAID does a better job of dispatching the motorpool, but ICASS operates less expensively. ICASS manages 28 total leases to USAID's 10.

3.4.2.1.2. Consolidation of these services at this relatively small post could reduce staff, improve service levels, and simplify operations. Moreover, given the size and scope of this small post, consolidation of all administrative services except for financial (constrained by different accounting systems) could yield significant savings in staff, including American staff.

3.4.2.1.3. Neither organization collects and reports on performance metrics to manage services. Collection, analysis, and use of performance metrics can highlight areas for improvement and be used to develop action plans to improve processes.

3.4.2.2. **Recommendations**.

3.4.2.2.1. Consolidate motorpools and leasing operations as soon as possible under the leadership of ICASS and USAID, respectively. Consolidate warehousing/property management under ICASS leadership to coincide with completion of the new warehouse on the NEC. Consolidate residential maintenance after ICASS and OBO have reduced their costs substantially.

3.4.2.2.2. For the future, consider merging all support services except financial management under one composite organization with mutual participation and governance from State and USAID. Develop mutually agreeable plans for power sharing in a new organizational structure. The resulting composite organization should become the support service provider for ICASS.

3.4.2.2.3. Implement staff reductions to eliminate redundancies and ensure a lean, interdependent organizational structure.

3.4.2.2.4. Collect, report, analyze, and act on performance metrics to continuously improve performance—increase service levels and reduce costs.

3.4.3. **Motorpools**. ICASS and USAID have relatively large motorpools for this size post. ICASS operates 15 vehicles with 23 drivers, and USAID operates 9 vehicles with 10 drivers.

3.4.3.1. **Findings**.

3.4.3.1.1. ICASS and USAID motorpools operate from the same parking lot on the Embassy compound and have mostly the same service areas in Dar es Salaam.

3.4.3.1.2. USAID makes more field trips to other parts of the country—approximately 30% of USAID trips are to the field.

3.4.3.1.3. Both motorpools enjoy high customer satisfaction.

3.4.3.1.4. Both motorpools appear to have excess capacity as evidenced by:

3.4.3.1.5. Requests are rarely turned down.

3.4.3.1.6. Much of the staff in Dar es Salaam ships and drives POVs.

3.4.3.1.7. ICASS has 23 pool drivers to 142 customers, and USAID has 10 pool drivers to 65 customers.

3.4.3.1.8. A significant portion of ICASS motorpool trips are made with customers driving themselves.

3.4.3.1.9. Motorpools do not coordinate trips to the airport or other destinations.

3.4.3.1.10. Neither motorpool collects, reports, or analyzes performance metrics to improve operations.

3.4.3.1.11. Costs of motorpools per kilometer are $ 1.76 and $ 2.46 for ICASS and USAID, respectively.

3.4.3.2. **Recommendations**.

3.4.3.2.1. Consolidate motorpools into one organization under leadership of ICASS. Place the USAID dispatcher in charge of dispatching.

3.4.3.2.2. Set up dynamic dispatching similar to USAID's to optimize vehicle and driver utilization.

3.4.3.2.3. Measure and trend service operation metrics to better schedule drivers and improve efficiency in the use of vehicles.

3.4.4. **Warehousing/Property Management**. ICASS and USAID maintain independent warehouses in separate locations. Each uses container trailers extensively to store items. Both warehouses will be consolidated into a new

warehouse on the Embassy compound within the next year. ICASS support 41 customers, and USAID supports 17 customers.

3.4.4.1. **Findings**.

3.4.4.1.1. ICASS and USAID warehouses contain similar items for similar purposes—mostly residential appliances, furnishings, and generators.

3.4.4.1.2. Both warehouses extensively use 20' or 40' containers for added storage space.

3.4.4.1.3. Both warehouses have water facilities and filling stations (the NEC's current storage capacity is inadequate for post's needs).

3.4.4.1.4. USAID's warehouse is well organized and clean.

3.4.4.1.5. ICASS' warehouse orderliness and housekeeping are improving.

3.4.4.1.6. A new warehouse will be constructed on the NEC starting in June 2004.

3.4.4.1.7. USAID participation in the ICASS furniture, appliance, generator, and housing pools could reduce requirements for these resources and reduce other costs (see section on pools).

3.4.4.1.8. There is no significant difference in customer satisfaction for these services.

3.4.4.1.9. Costs of warehousing/property management are $ 5,346 and $ 8,103 for ICASS and USAID, respectively.

3.4.4.2. **Recommendations**.

3.4.4.2.1. Consolidate warehouses and property operations under the leadership of ICASS in a new composite organization.

3.4.4.2.2. Reduce management and warehousing staffs to the minimum required to maintain service levels.

3.4.4.2.3. Research and resolve ongoing needs for additional water sources/storage beyond the NEC.

3.4.4.2.4. USAID should join the ICASS furniture, appliance, and generator pools.

3.4.5. **Residential maintenance**. ICASS maintains 41 residences, and USAID maintains 17 residences.

3.4.5.1. **Findings**.

3.4.5.1.1. Though both appear overstaffed, ICASS residential maintenance is more overstaffed than USAID residential maintenance.

3.4.5.1.2. ICASS maintains 41 residences with 31.2 FTE.

3.4.5.1.3. USAID maintains 17 residences with 9.8 FTE.

3.4.5.1.4. ICASS outsources major structural work such as floor tiling and roofing, while USAID outsources all make ready and major renovation work.

3.4.5.1.5. Both maintenance facilities are located on or adjacent to the NEC.

3.4.5.1.6. Both maintenance functions enjoy high levels of customer satisfaction.

3.4.5.1.7. The ICASS unit maintains the NEC as well as residences.

3.4.5.1.8. USAID participation in the ICASS housing pool could reduce make ready requirements and reduce other costs (see section on pools).

3.4.5.1.9. Neither organization collects, reports, or analyzes performance metrics to improve performance.

3.4.5.1.10. Costs of residential maintenance per residence, excluding OBO costs, are $ 14,479 and $ 10,911 for ICASS and USAID, respectively. Costs including OBO costs are $ 19,115 and $ 10,911 for ICASS and USAID, respectively.

3.4.5.2. **Recommendations**.

3.4.5.2.1. ICASS initiate an effort to reduce staff and costs of residential maintenance. Consider consolidation of residential maintenance under ICASS/FMS leadership when costs have been made competitive.

3.4.5.2.2. Reduce staffs performing residential maintenance to minimum required to maintain service levels.

3.4.5.2.3. Continue and expand outsourcing of larger maintenance projects like make ready painting, flooring, etc.

3.4.6. **Leasing**. ICASS maintains 28 total leases, and USAID maintains 10 total leases.

3.4.6.1. **Findings**.

3.4.6.1.1. ICASS maintains 28 total leases with 0.8 FTE, while USAID maintains 6 total leases with 0.25 FTE.

3.4.6.1.2. USAID is perceived as having better houses though the team observed only minor differences (Both have excellent houses considering the location.).

3.4.6.1.3. Both leasing operations have similar processes and appear well managed.

3.4.6.1.4. ICASS must routinely obtain waivers from OBO for lease costs that are greater than $ 25,000 annually.

3.4.6.1.5. USAID can waive lease costs locally.

3.4.6.1.6. There is no significant difference in customer satisfaction for the two organizations.

3.4.6.1.7. Costs of leasing per lease are $ 1,912 and $ 909 for ICASS and USAID, respectively.

3.4.6.2. **Recommendations**.

3.4.6.2.1. Consolidate leasing operations under the leadership of USAID and reduce management effort.

3.4.6.2.2. ICASS reevaluate the need for a standing waiver for annual lease costs and re-address with OBO, if necessary.

Chapter 4. Agency Comments

4.1. **General**. State and USAID team members have some differing perspectives with regard to issues identified in this study. The following paragraphs highlight important considerations in considering consolidations and pilots in the coming months.

4.2. **State perspectives**.

4.2.1. Support for Pilots.

4.2.1.1. The State Department element of the team supports the recommendations contained in the report. Elimination of unnecessary redundancies will provide cost savings and better value for all ICASS customers including State and USAID. These pilots should be viewed as the first step on which to build with follow-on consolidation efforts at these and other posts. Washington oversight will be important to facilitate these pilots and to ensure that the process of eliminating duplication of operations continues and expands.

4.2.1.2. A gradual service-by-service approach that could take years to eliminate wasteful duplication is difficult to justify during a time of budget deficits and declining funding. ICASS customers are suffering urgent affordability issues overseas that deny us the luxury of a slow approach. The security situation also compels us to reduce the presence of unnecessary U.S. Government personnel and assets abroad where we can. The State-ICASS management sections confirmed that they are ready to proceed with whatever pilots the JMC directs, whether that means they are to take over or yield responsibility for these services to USAID.

4.2.1.3. We agree with the consultant's suggestion to fully integrate the management sections of ICASS and USAID at Dar es Salaam and Phnom Penh by summer 2005. These are small posts where the two administrative units are co-located and perform the same functions. Here is an opportunity to develop a model that combines and maximizes the talents of both organizations and can guide other posts in their efforts to efficiently eliminate redundancies. This approach would engage USAID's experienced and talented cadre of Executive Officers as partners with State's Management Officers in managing ICASS operations. All ICASS customer agencies would benefit.

4.2.2. **OBO Expertise**.

4.2.2.1. State-ICASS should assume responsibility for building maintenance operations at posts supported by an OBO Facilities Maintenance Specialist (FMS). All USG personnel and facilities abroad deserve a common high standard of service on such functions as safety, health and environmental management, fire prevention, electrical and generator programs, and buildings systems maintenance. OBO's expertise in these areas should be available to all USG entities abroad. We recommend a review in Washington of institutional

and funding obstacles that might prevent OBO from extending its programs to USAID personnel and facilities abroad.

4.2.2.2. The FMS, where assigned to a post to take care of USG-owned facilities, is a professional asset that should be fully utilized. Because the FMS and other OBO programs are directly funded by OBO, the ICASS residential maintenance customers benefit from this expertise without having to pay for it through ICASS. While the operational capability in FMS-managed maintenance units is impressive, this quality comes at a cost. Consolidation of maintenance operations under the FMS would add economies of scale, but should be accompanied by efforts to control costs.

4.2.3. **Asset Segregation**. It is important for USAID's legal office to resolve the issue of segregating trust fund assets quickly so the pilots can proceed, and to publicize the answer. Officials at posts often interpret the requirement to segregate property purchased with different funds (trust funds, program money, Regional Inspector General account) as an obstacle to USAID's participation in furniture and housing pools and other consolidation efforts. From the perspective of consolidation efforts, it is hoped that accounting for the property separately would satisfy the legal requirement and that such assets need not be kept physically distinct. Resolution of this issue will hopefully allow USAID to participate fully in furniture/housing pools and consolidation efforts so that posts can realize the operational efficiencies and cost savings.

4.2.4. **Performance Initiatives**. We support the suggestion that performance metrics should be part of consolidated operations. We also concur with the idea to pilot a cost accounting system. These important efforts can be implemented at other posts and need not necessarily be included as part of the subject consolidation pilots. Performance metrics are already in use and expanding at a number of posts, for example. The first priority of the pilots, pursuant to the State-USAID memorandum of agreement, should be to reduce costs by eliminating unnecessary duplication wherever "win-win" business value results. We would support including such initiatives in these consolidation pilots if they will help achieve the pilot objectives and not interfere with their implementation.

4.2.5. **Competition Among Service Providers**. One argument we heard for retaining parallel service providers was that they provide customer choice and competition. We saw little evidence of that in fact. The parallel service providers at the posts we visited rarely shared best practices or competed for customers. The cost benefits from consolidation would outweigh any competition benefits that were apparent from having alternate service providers. Other techniques to drive performance improvements, such as metrics, quality assurance programs, and sharing innovations among posts would seem to offer more promise.

4.2.6. Anomalies in Cost Data.

4.2.6.1. The team did its best with the data provided and the time available to achieve a fair "apples-to-apples" cost comparison of State-ICASS and USAID operations. No doubt some differences remain in the cost data that we couldn't identify, but we think most of these are insignificant. One anomaly that we can explain but not correct is the time allocations for staff (by which we attributed labor costs among the cost centers studied), calculated differently for ICASS and USAID staffs. Because labor costs are by far the largest component of the costs we studied, how time was allocated has a large impact on the cost comparisons. The time allocations for ICASS American and LES staff were done as part of the normal FY2003 ICASS cycle, whereas the allocations for USAID staff were done for this study and with the knowledge of the areas we were studying. An aspect of human nature that auditors and inspectors tend to see, and that we may have encountered in this study, is: that which you study tends to shrink.

4.2.6.2. We note that the USAID Executive Officer time allocations for the four posts include little time spent managing the operations that we studied, relative to the standard ICASS allocations. For example, one EXO listed only 29% of his time in management and administrative duties (of which, 4% in Motorpool, 2% in warehouse/property operations, 4% in residential maintenance, and 2% in Leasing). Further, the lack of definition in the process would tend to cause different time allocations for such duties as employee evaluations, counseling and discipline, position descriptions, etc. The GSO would include these actions as part of his time spent in the operations we studied whereas an EXO, who oversees Human Resources as well as the studied services, would tend to include these duties as time spent in the personnel cost center, which we did not study.

4.2.6.3. We are pleased to see that the cost comparison showed that ICASS operations are generally cheaper than USAID operations despite these possible anomalies. Cooperating to maximize the talent and experience of both State and USAID service providers will improve the value of ICASS services for all customers.

4.2.7. Implementation Planning.

4.2.7.1. It is important to stress that whichever side takes the lead in any consolidation effort, the implementation plan should maximize the advantages that each side can bring to the new operation. This includes best practices, processes, systems and equipment. It also includes retaining the best employees from each side. Any Reduction in Force plans must be impartial between the agencies.

4.2.7.2. Successful pilots at these posts depend on effective support and motivation from Washington. Posts will need expertise and resources to implement the pilots. The responsible officials on both sides need incentives to overcome parochial attitudes and cooperate to achieve success. One important incentive would be to make successful pilots part of the performance appraisal process by including them in the work objectives of those responsible (including

Management Officers, Executive Officers, Mission Directors, and DCMs), and evaluating them on the basis of cooperation and success. Incentives such as letters of commendation, onward assignments, and merit awards would be useful.

4.2.7.3. The key to successful pilots will be cooperation in the development of intelligent implementation plans. This could be facilitated by bringing the Management Officers and Executive Officers back to Washington to develop the implementation plans. This would allow the JMC and senior officials of both agencies to emphasize the importance of the project. It would enable the responsible officials to work together away from the distractions at post, with the help of experts on team building and the mechanics of consolidation. This would also be less expensive than sending support teams to the posts.

4.2.7.4. In response to the example presented by USAID on mutual trust, 4.3.1.3., there are differing perspectives and the funding cited was used to improve common facilities that would benefit all agencies at post.

4.3 USAID Perspective

4.3.1 USAID Support for Pilots

4.3.1.1 USAID agrees that a duplication of services exists in several posts that were visited in the course of this study. The USAID Team believes that a reliance on a duplicative process to receive services in USAID missions was developed over time in an effort to ensure that costs would be contained and that the quality of services would remain at a level of acceptability. Until the quality of services for non-State customers is sustained and cost containment becomes a fundamental tenet of the ICASS system, the consolidation of USAID services will not be easily attained. In an effort to reach the goal of quality services and cost containment, the following suggestions are offered in the context of the Shared Serves Study.

4.3.1.2 Timing for Successful Completion of Pilots. The duration of the pilot tests has been established for approximately six months, October 2002 to April 2005. There is insufficient time to create a successful pilot if it involves too broad a scope. Specifically, the notion that testing four service activities at four pilot posts is unrealistic. Failure is likely if we overreach. A simple approach that can be easily measured is most likely to succeed. The pilot can be expanded based on a proven success at the end of the initial phase of the pilot.

4.3.1.3 Mutual Trust of Organizations is Necessary It was clear from our observations that there was a lack of trust related to service management between State and USAID throughout the missions the team visited. This alone supports a slow, steady approach. For example, at one post surveyed the ICASS Council discovered that the ICASS provider had spent $250,000 of carryover funds without discussing the issue with the Council. This example emphasizes the point that the pilot missions will need time to develop trust in

one another and time in order to work together effectively. Only after trust is established, will there be room for expanding future successful pilots.

4.3.1.4 Full-Integration We strongly oppose any discussion at this time of "full integration pilots", primarily because it is far beyond the scope of this study. Neither of the teams looked at the entire range of administrative support in the countries visited. A full integration recommendation without a review of human resources, communications and records, IT systems, financial management or other services in addition to the four that were apart of the study, would be irresponsible. Trust remains an elusive concept. Seasoned administrative-types remember that Joint Administrative Operations (JAOs) was extensively tested throughout Africa and Asia in the 80s and 90s. JAOS were considered a failure and eventually dissolved, and for good reason. There have been none in existence since the early 90s.

4.3.1.5 As pointed out in the recent GAO study and as discussed and agreed by the ICASS Executive Board members at the recent off-site earlier this month, ICASS has systemic and structural problems. These include its historical inability to contain costs and its unwillingness to establish and demand worldwide standards. While performing and completing a series of shared service pilot projects may address and begin to resolve issues of duplication, there are still major endemic problems that will only be exacerbated by moving to a single provider concept, without at the same time addressing ICASS' other shortcomings. These issues are more fully discussed in USAID's ICASS White Paper submitted to IEB members in preparation for the IEB offsite held on April 7, 2004.

4.3.2 Performance Initiatives and Reporting Anomalies

4.3.2.1 USAID feels that there are inconsistencies worldwide in the manner in which ICASS operates. These inconsistencies make it difficult to fairly assess field operations. Accordingly, we strongly recommend two changes in the way ICASS does business:

4.3.2.2 First, we recommend that the ICASS Service Center convene a group of senior Management Officers (DOS), Executive Officers (USAID) and other IWG members, and establish a worldwide interagency standard for Time Allocation of administrative duties in ICASS operations and USAID EXO operations. We recognize there will always be unique circumstances or unusual years when, as an example, a major RIF or an evacuation may alter the mix of duties performed. However, as demonstrated in the successful examples of shared service models in the private sector, we are confident that likewise with ICASS, worldwide standards would be beneficial. Examples of the extreme operational differences in our study included: an EXO that spent only 29% of his time on administrative functions in his mission; several Embassy Management Officers that declared they spent over 50% of their time on "Basic Package" activities (a service all agencies must subscribe to), and at least one instance in which a Management Officer allocated time to only one of the four services studied (residential maintenance at 5%). Such

disparities, established primarily on the visceral instinct of the senior administrative officer at the time of the survey, make it difficult for any system to explain or contain costs.

4.3.2.3 Secondly, USAID also feels it is essential that ICASS, together with its field councils, establish worldwide "Universal Metrics" for each of the ICASS Services. Such a tool is absolutely critical to providers and customers in ascertaining how well things are going at their mission. It also provides a quick handle for the ISC to determine where help might be needed. If ICASS does not have a mechanism for defining precisely what it is doing, it will never improve.

4.3.2.4 In regard to the pilots, USAID feels that metrics are absolutely critical in order to establish a baseline and to continuously analyze performance and costs as the pilots hone staff and other resources into a lean responsive support service team. In a time of limited resources we need to work "smarter." We cannot work smarter without adequate information.

4.3.3 OBO Expertise

4.3.3.1 OBO Facility Management Specialists (FMS) are posted primarily with the responsibility for activities in addition to building management. Due to certain excess capacity, OBO FMS provide their expertise in the ICASS residential programs at the observed missions. It is our view that the generalized use of OBO to manage residential maintenance is a grossly overpriced solution that can be resolved at much lower cost utilizing local resources. An extreme example was seen in Tanzania. The ICASS operation cost nearly 100% more than the outsource-contract provided residential maintenance program managed by USAID. While we respect the knowledge and abilities of the OBO FMS cadre, we feel that the ICASS operation in Dar es Salaam has bought a Rolls Royce Service when a Chevrolet will do. It is also our observation that ICASS operations work on the principle that OBO is a free service. Simply put, OBO remains a cost to the American taxpayer, and as such efforts need to be made to manage that cost. In the example described above, ICASS pays more than $300,000 per year than they would under the USAID operation. USAID contends that in light of the Capital Security Cost Sharing (CSCS) Program, even though OBO is not now charging ICASS fees for services, these costs will eventually be assessed for its customers. ICASS customers should plan accordingly.

4.3.4 Asset Segregation – Not Just a USAID Issue

4.3.4.1 There were several instances in which our team observed the segregation of property assets is required due to agency-specific needs, i.e., DOD, USAID (trust-funded), USAID (RIG). This issue does not affect all agencies, however modifying the current system of property management and distribution will have a major impact on USAID. As an example, most of the real and personal property in USAID/Cairo is purchased with trust funds.

There are legal implications based on U.S. and international law regarding the use of this property. At present it is prohibited to utilize trust-funded property for non-trust funded operations. Tampering with the bi-lateral relations or reopening the negotiations that established the basis for our US-Egypt trust fund account would be jeopardized.

4.3.4.2 While we agree that pooling of resources is at times a preferred method of dealing with furniture and appliances, we feel that individual circumstances at post should dictate whether it makes sense or not. USAID supports the recommendation that furniture and appliance pools be an element of local empowerment. If a post desires a pool concept, the Council should look at the advantages and disadvantages of both options, i.e., establishing the pool inside or outside of the ICASS umbrella.

4.3.5 Implementation Planning Proposal

4.3.5.1 This pilot was designed with win-win solutions in mind for both State and USAID. Neither organization should suffer economically or in terms of the quality of the service provided. We strongly believe that any shared service pilot must be designed in order that a convincing rationale for future mission participation in similar pilots can be established. A third and important party in this pilot agreement is other ICASS service customers. They cannot be ignored. Thus far, their concerns regarding the pilot studies have not been considered, nor have their opinions been solicited.

4.3.5.2 In our deliberations we feel we need to encourage pilot service providers to consider stepping outside of the "ICASS-as-Usual, USAID-as-Usual" business frame of reference. The concept of any pilot is to test new methodologies. With that in mind, the Shared Services pilot design should consider a) testing one or more service under a "fee for service" structure; and b) out-sourcing a major portion of the mission support requirements.

4.3.6 Summary

4.3.6.1 USAID agrees that consolidation of services is the convenient approach, at least in administrative terms, of meeting OMB and Presidential Management Agenda (PMA) objectives. If we look below the surface, however, this approach alone will not provide the quality enhancements or cost containment that we desire. What consolidation of services into one service umbrella overseas will do is provide the Department with meeting a tick mark in its efforts to demonstrate administrative efficiencies. However, as the PMA scorecard reminds us every quarter, goals must be sustained. Change to a single service concept without addressing the fundamental operational modalities for sustained success is a sure recipe for failure. ICASS needs to be a leader in best practices and fair play before it can assume such a broad mandate as a single provider. Any services that are consolidated must be vetted at post at the Council level, and in Washington, at the regional bureau level (State and USAID).

4.3.6.2 USAID proposes that posts should agree upon one or two services that the Team recommends at each of the four pilot locations in order that the consolidation of services can quickly and efficiently be established for the duration of the six month pilot. The four posts will be required to plan and put into place the proposed service transformation and co-joining of staff and operations during the final three months of the summer and fiscal year. This is a season traditionally high in transfers and vacations. A deliberate and measurable pilot, with a discreet number of services to be measured, will be more likely to result in the success. Without willing partners, and a well managed pilot study, the benefits we have gained to date in terms of best practices will potentially be lost through mistrust and resistance.

Chapter 5. Cost Study Methodology

5.1. **General**. The study team, in cooperation with USAID and ICASS employees at each post, collected and normalized costs for comparison. The ICASS cost distribution system was used as the basic framework, but insignificant costs that could not be easily obtained either by ICASS or USAID were pulled out of the compilation. Total costs were divided by the number of customers or units appropriate for that service to provide summary unit rate comparisons (cost per kilometer driven, for example). These cost comparisons are summarized in Appendices A-D.

5.2. **USAID's increased challenge**. Since USAID does not collect costs using the ICASS method or routinely collect personnel time allocations, financial managers asked individuals and managers to estimate the allocations and portions of consolidated costs to arrive at cost estimates. USAID personnel worked extra hours to provide this information in detail.

5.3. **Cost Study Methodology**. The initial objective was to collect all costs associated with a service. These costs included items in the following categories:

- Personnel
- Vehicles
- Facilities
- Consumables
- Contracts

5.3.1. **Personnel**. The costs of all U.S. direct hires, U.S. local and offshore personal service contractors (PSCs), Foreign Service national (FSN) direct hires, FSN PSCs, eligible family members, and students were used in cost computations. Where individuals worked in areas outside of the target service, the person's time allocated to that service was used to calculate the associated cost. Cost allocations were collected for 100 percent of each person's effort to ensure an accurate allocation.

5.3.1.1. In some cases, minor fractions of FSN costs were disregarded due to the difficulty of obtaining allocations and the relative insignificance of the costs.

5.3.1.2. Since allocations of time are not a normal, standardized practice in USAID, some of these allocations may not have aligned exactly with ICASS allocation practices. For example, an executive officer's allocation to personnel activities could be interpreted either as time that should be allocated to HR or as time that should be allocated to other core services, including the target services of this study.

5.3.1.3. Total personnel compensation included all types of pays, allowances, and entitlements for employees and dependents. Examples of entitlements included post allowances, benefit plans, R&R, language training, and special clothing. Housing costs included rents, utilities, and generator maintenance.

5.3.2. **Vehicles**. Vehicle costs included depreciation, maintenance, and fuel and lubricants.

5.3.3. **Facilities**. Facilities costs were most important for warehousing/property management, but were less significant for other services. Warehouse rents were included for non-expendable property management, but office rents or depreciation of owned property for other services were not included. Miscellaneous office supplies and maintenance were included only where available for both service providers. Janitorial and other contract service costs were included, as appropriate. Utilities were not included.

5.3.4. **Consumables**. Costs of fuel and lubricants were included for motorpool, other services using vehicles, and for generators operated at offices and residences. Miscellaneous supplies and office supplies were included, as available and appropriate for both providers.

5.3.5. **Contracts**. Contract costs were captured in separate line items for each service. This item included both major contracts such as warehousing operations and minor contracts such as janitorial services.

5.3.6. **Capture of related costs**. For motorpool, vehicle maintenance costs (a separate cost center in ICASS) were included so as not to skew the total cost/kilometer.

5.4. **Other costs not included**. Examples of other costs not included are facilities rents or depreciation for leasing and motorpool, and residential and office furnishings for all services.

5.5. **Unit rate comparisons**. The team discussed at length the unit rates that would provide the most accurate, fair comparisons.

5.5.1. Motorpool unit rate cost. Both cost per kilometer and cost per customer were calculated for the motorpools.

5.5.1.1. For cost per kilometer, the total cost of operating vehicles that were used as taxis, shuttles, or self driven was divided by the total kilometers driven on these vehicles for the year.

5.5.1.2. For cost per customer, the same costs were divided by the number of employees who would normally use the motorpool. This number included all Americans and FSNs equal to or greater than grade 5.

5.5.2. Warehousing/property management unit rate cost. Total costs of non-expendable and expendable property management were tallied and divided by the number of people at post who were eligible for housing. This number of eligible people included some temporarily vacant positions for both ICASS and USAID. Post HR reports were used to develop this total.

5.5.3. Residential maintenance unit rate cost. The total cost of residential maintenance including costs of shops, materials, vehicles, tradesmen, and other personnel was divided by the total number of residences. The number of residences included all government owned residences and all leased residences. Residences that were used as offices or for other purposes were not counted.

5.5.4. Leasing operations unit rate cost. Leasing costs were primarily the costs of leasing personnel. The unit rate cost was that total cost divided by the total number of people at post eligible for housing (same as the customer base for warehousing/property management).

5.6. **Confidence level**. Though time allocations and some costs were not always calculated with exactly the same precision, the team has at least an 80 % confidence level in the final results. Since no decisions will be made on shades of difference, this confidence level should be adequate for this analysis.

5.7. **Compilation spreadsheet**. A compilation template (MS Excel) was developed to structure the tabulation of costs from both ICASS and USAID for each location. This workbook contains tabs for personnel, vehicles, costs mapping, service statistics, and cost comparisons. The four completed workbooks are found at Appendix F, Service Cost Comparisons by Post.

5.8. **Service costs analysis**.

5.8.1. **Motorpool costs**.

5.8.1.1. For motorpool, costs were tabulated for personnel, vehicles, and other overhead costs. The costs of vehicles were further categorized into vehicle depreciation, fuels and lubricants, and maintenance. Personnel costs were sub-divided into management, drivers, clerical and labor, and supervisor/ dispatchers.

5.8.1.2. The costs for drivers was divided further according to their activities. Using sample vehicle trip logs from ICASS and USAID motorpools, the team determined the amount of time spent driving and the amount of time spent standing by for trips. The amount of time spent driving divided by the total time available in the work day equaled the drivers' utilization rate. This rate multiplied times the total costs of drivers equaled the costs of driving. The rate, subtracted from 100 %, equaled the percent of time standing by. This percentage of standby time was multiplied times to total driver costs to determine the costs of drivers standing by. Unfortunately, data was not available to determine the amount of time that drivers spend waiting for passengers while on trips. Considering total trip times and distances involved, this wait time was considerable for some motorpools at some of the posts.

5.8.1.3. These costs, broken down and divided by total kilometers driven, yielded the proportional costs of driving each kilometer. For example, in Jakarta we found that it cost ICASS $ 1.45 per kilometer driven. Of that amount, $ 0.75 was the cost of the vehicle (fuel, maintenance, and depreciation). $ 0.16 was the cost of drivers actually driving, and $ 0.30 was the costs of drivers standing by to be dispatched.

5.8.2. **Warehousing/property management costs**.

5.8.2.1. Warehouse costs included personnel, facilities, operating, and maintenance costs. Personnel costs were tallied for all management, warehousemen,

drivers, storekeepers, supply clerks, and other labor. The management included USDHs, USPSCs, and managing FSNs. The other costs included warehouse/office rents, supplies (consumed by warehouse/property management), vehicle fuel and maintenance, facilities operating costs, furniture repair, and annual contracts for warehousing other than furniture repair. The cost of furniture repair was moved from residential maintenance cost center for some posts.

5.8.2.2. Warehousing/property management costs did not present the entire picture of relevant costs. The costs of purchasing furniture were not included. Since most items handled by the warehouse included furniture, the furniture purchase, replacement, and disposal concepts could affect the size and costs of warehouse operations. These concepts, in turn, could affect the level of customer satisfaction. For example, if the service provider chose to move new furniture into each house as it turned over, the warehouse could be used mostly as a conduit to disposal. This approach would require a much smaller warehouse and the maintenance of the warehouse would become far less important. In locations, where the recovery value for furniture and appliances is high, this approach could be economically viable.

5.8.3. **Residential maintenance**. Residential maintenance costs included personnel, material, facilities, vehicles, and contracts. Personnel costs were sub-divided into cost for management and other labor costs. The costs for management included time allocated by U.S. and locally engaged supervisors. Other labor costs included costs for dedicated drivers, skilled craftsmen, and other labor.

5.8.3.1. At most posts, residential maintenance and office maintenance were provided by the same personnel from the same facilities. Theses costs were prorated based on the time allocations of personnel.

5.8.3.2. At some of the posts, OBO provides facilities maintenance supervisors to manage maintenance for the embassy and Government-owned residences. Most often these maintenance organizations provided some level of maintenance to leased residences as well.

5.8.3.3. OBO provides maintenance programs and FMSs at no cost to posts; and therefore, ICASS does not include these costs in their charges. Since these costs are a real part of the costs of the service, the team included those costs for comparison. However, since these costs would not be included in charges to USAID employees, costs were also tabulated without these costs.

5.8.4. **Leasing costs**. Leasing costs were simply tabulated by adding the costs of all leasing officers, clerks, and other working on leasing. Other costs, such as those for vehicles, were included where appropriate.

List of Appendices